

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Freeport	County Barry
Audit Date 2/28/06	Opinion Date 5/26/06	Date Accountant Report Submitted to State: 7/19/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

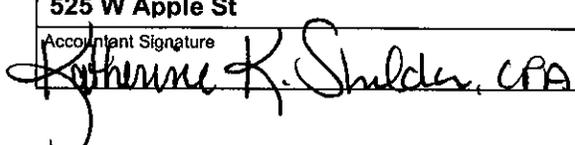
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- Yes No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- Yes No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- Yes No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- Yes No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- Yes No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- Yes No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- Yes No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- Yes No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- Yes No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Walker, Fluke & Sheldon, PLC			
Street Address 525 W Apple St	City Hastings	State MI	ZIP 49058
Accountant Signature 		Date 7/19/06	



WALKER, FLUKE & SHELDON, PLC
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May 26, 2006

To the Village Council
Village of Freeport
Barry County, Michigan

We have recently completed an audit of the financial statements of the Village of Freeport, Barry County, Michigan for the year ended February 28, 2006. During the course of the audit the following items came to our attention, which require further comment.

Budgets should be Adopted for Revenue Accounts

During the course of the audit, it was noted that the Village is not budgeting for the special revenue funds (Major Streets and Local Streets) various revenue accounts. This is a repeat comment from prior years.

P.A. 621, 1978 requires governmental units to prepare annual budgets containing an itemized statement for its proposed expenditures and estimated revenues, covering all its departments and activities. The budget for revenue of the Village should be a detailed estimate of all anticipated income of the Village from major sources per the Uniform Chart of Accounts for Local Units of Government. The major revenue source classifications are taxes and penalties, licenses and permits, federal aid, state aid, intergovernmental revenue, charges for services, fines and forfeits, interest and rentals, and miscellaneous.

It is recommended that the Village prepare and approve annual budgets containing detailed revenues by major source and proposed expenditures by activity.

Budgets Should Be Reviewed On A Periodic Basis

P.A. 621 of 1978, Section 17, provides that a local unit should amend the expenditures budget when it appears that the budgeted revenues will be less than anticipated expenditures. In addition, Section 18 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended February 28, 2006, the Village over expended in several areas. The Village currently monitors the budget and does amend the budget from time to time and will continue to do so. In addition, consideration should be taken at year-end for typical audit adjustments and amend the budget accordingly. The approved budget and all amended budgets should become a permanent part of the board minutes.

Quarterly Transfers To Bond Interest And Redemption Account

During the audit, it was noted that the required quarterly transfers to the bond and interest redemption account are not being made in accordance with the bond ordinance for the Water Revenue Bonds series 2005. The Village is currently making the transfers biannually as the principal and interest payments are due. Also, the water hydrant rental fee from the general fund to the water fund is not being deposited in accordance with the Village Share Bonds, Series 2005

According to the bond ordinance for the Water Revenue Bonds Series 2005 (\$850,000), "there shall be set aside, quarterly on the first day of each March, June, September and December, commencing September 1, 2005, and deposited in the Bond and Interest Redemption Fund (Redemption Fund), for payment of principal and interest on the Bonds, a sum equal to at least

one-half of the amount of the interest due on the next ensuing interest payment date plus not less than one-quarter of the principal maturing on the next ensuing principal payment date each year."

Commencing on December 1, 2006, the Village "shall fund a Bond Reserve Account in the amount of \$4,650 annually until an amount equal to the Bond Reserve Requirement (\$46,500 for the Series 2005 Bonds) has been accumulated. All the investment earnings of the Bond Reserve Account shall be transferred to the Redemption Fund and set aside for the payment of current principal and interest on the Series 2005 bonds." In addition, on December 1, 2006 the Village "shall annually fund a Repair, Replacement and Capital Improvement Fund (Replacement Fund) with a sum of not less than \$4,900 each year until the Bond Reserve Requirement has been accumulated in the Bond Reserve Account, and thereafter the sum of not less than \$9,550 each year."

According to the bond ordinance for the Village Share Bonds, Series 2005(\$60,000), "the Village shall not less often than annually transfer to the Debt Service Fund funds sufficient to pay the principal of the and interest on the Bonds when due. It is the intent of the Village to pay the principal and interest due each year on the Bonds from the public fire hydrant rentals which the Village is obligated to pay from its General Fund in accordance with the Village Water Connection, Use and Rate Ordinance." In addition, "any excess public fire hydrant rental remaining after payment of principal and interest due each year on the Bonds have been pledged for repayment of the Series 2005 Water Revenue Bonds". These amounts should be transferred to the Bond and Interest Redemption Fund (Redemption Fund), for payment of principal and interest on the Water Revenue Bonds Series 2005.

It is recommended that the Village of Freeport follow the required transfer schedule in accordance with the bond ordinances. A flow chart of the required transfer dates and amounts could be a useful tool and is highly recommended. Any deficiency in the amount required to be set aside, should be added to the next quarterly requirement. All required cash accounts should be approved by the Board and opened in accordance with the Village investment policy.

We would like to take this opportunity to thank the Village of Freeport Clerk and Treasurer for the cooperation and courtesy extended to us during the audit. If you have any questions or need assistance, do not hesitate to contact us.

Walker, Fluke & Shultz, PLLC

VILLAGE OF FREEPORT
FINANCIAL STATEMENTS
For the year ended February 28, 2006

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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Freeport
Barry County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Freeport, Michigan, as of and for the year ended February 28, 2006, which collectively comprise the Village's financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Freeport, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Freeport, Michigan, as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 26, 2006, on our consideration of the Village of Freeport, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Freeport's basic financial statements. The additional supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Village of Freeport, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Hastings, Michigan
May 26, 2006

Walker, Fluke & Sheldon, PLC

VILLAGE OF FREEPORT
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
February 28, 2006

	Primary Government		
ASSETS	Governmental Activities	Business-Type Activities	Total
Cash and Cash Equivalents	\$ 101,500	\$ 51,262	\$ 152,762
Investments	7,672	-	7,672
Receivables (Net)			
Taxes - Delinquent	10,929	-	10,929
Accounts	-	360	360
Other	-	16,056	16,056
Due From State	14,945	-	14,945
Due From Other Funds	12,054	-	12,054
Internal Balances	(5,281)	5,281	-
Restricted Assets	-	14,042	14,042
Capital Assets (Net of Accumulated Depreciation)	129,478	1,163,033	1,292,511
Total Assets	271,297	1,250,034	1,521,331
LIABILITIES			
Accounts Payable	-	2,204	2,204
Accrued Liabilities	-	11,280	11,280
Due to Other Funds	8,200	396	8,596
Noncurrent Liabilities			
Due Within One Year	12,604	9,000	21,604
Due In More Than One Year	9,727	761,000	770,727
Total Liabilities	30,531	783,880	814,411
NET ASSETS			
Net Assets			
Invested in Capital Assets, Net of Related Debt	107,147	393,033	500,180
Restricted for Debt Service	-	13,289	13,289
Restricted for Capital Projects	-	753	753
Unrestricted	133,619	59,079	192,698
Total Net Assets	\$ 240,766	\$ 466,154	\$ 706,920

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF FREEPORT
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
February 28, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program</u>	<u>Net (Expense) Revenue and</u>		
		<u>Revenues</u>	<u>Changes in Net Assets</u>		
		<u>Charges for</u>	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
		<u>Services</u>	<u>Activities</u>	<u>Activities</u>	
Primary Government					
Governmental Activities					
Legislative	\$ 4,246	\$ -	\$ (4,246)	\$ -	\$ (4,246)
General Government	54,788	8,117	(46,671)	-	(46,671)
Public Safety	39,082	-	(39,082)	-	(39,082)
Public Works	60,379	-	(60,379)	-	(60,379)
Recreational and Cultural	10,588	-	(10,588)	-	(10,588)
Other	9,707	-	(9,707)	-	(9,707)
Interest and Fiscal Charges	1,524	-	(1,524)	-	(1,524)
Total Governmental Activities	<u>180,314</u>	<u>8,117</u>	<u>(172,197)</u>	<u>-</u>	<u>(172,197)</u>
Business-type Activities					
Water	70,201	106,122	-	35,921	35,921
Interest and Fiscal Charges	15,616	-	-	(15,616)	(15,616)
Total Business-type Activities	<u>85,817</u>	<u>106,122</u>	<u>-</u>	<u>20,305</u>	<u>20,305</u>
Total Primary Government	<u>\$ 266,131</u>	<u>\$ 114,239</u>	<u>(172,197)</u>	<u>20,305</u>	<u>(151,892)</u>
General Revenues					
Taxes and Penalties			68,089	-	68,089
Licenses and Permits			813	-	813
State Grants			90,634	-	90,634
Investment Income			7,098	788	7,886
Fines and Forfeitures			51	-	51
Other			30,509	-	30,509
Total General Revenue			<u>197,194</u>	<u>788</u>	<u>197,982</u>
Loss on Disposal of Asset			<u>1,375</u>	<u>-</u>	<u>1,375</u>
Change in Net Assets			23,622	21,093	44,715
Net Assets-Beginning			<u>217,144</u>	<u>445,061</u>	<u>662,205</u>
Net Assets-Ending			<u>\$ 240,766</u>	<u>\$ 466,154</u>	<u>\$ 706,920</u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF FREEPORT
GOVERNMENT FUND BALANCE SHEET
February 28, 2006**

ASSETS	General	Major Streets	Local Streets	Total Governmental Funds
Cash and Cash Equivalents	\$ 47,055	\$ 34,429	\$ 20,016	\$ 101,500
Investments	7,672	-	-	7,672
Receivables				
Taxes - Delinquent	10,929	-	-	10,929
Due From State	5,774	7,032	2,139	14,945
Due From Other Funds	<u>3,457</u>	<u>7,951</u>	<u>646</u>	<u>12,054</u>
Total Assets	<u>\$ 74,887</u>	<u>\$ 49,412</u>	<u>\$ 22,801</u>	<u>147,100</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Due To Other Funds	\$ 13,033	\$ 435	\$ 13	13,481
Deferred Revenue	<u>814</u>	<u>-</u>	<u>-</u>	<u>814</u>
Total Liabilities	<u>13,847</u>	<u>435</u>	<u>13</u>	<u>14,295</u>
Fund Balances				
Reserved	-	-	-	-
Designated	-	-	-	-
Unreserved-Undesignated	<u>61,040</u>	<u>48,977</u>	<u>22,788</u>	<u>132,805</u>
Total Fund Balances	<u>61,040</u>	<u>48,977</u>	<u>22,788</u>	132,805
Total Liabilities and Fund Balances	<u>\$ 74,887</u>	<u>\$ 49,412</u>	<u>\$ 22,801</u>	

**Reconciliation of the Governmental Fund's Balance Sheet to the
Statement of Net Assets:**

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds

Governmental capital assets	207,070	
Less: Accumulated Depreciation	<u>77,592</u>	129,478

Long-term liabilities used in governmental activities are not due and payable in the current period and therefore are not reported in the governmental funds (22,331)

Deferred revenues reported in governmental funds are recognized as revenues in the governmental activities 814

Net Assets of Governmental Activities \$ 240,766

VILLAGE OF FREEPORT
GOVERNMENT FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended February 28, 2006

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes and Penalties	\$ 73,657	\$ -	\$ -	\$ 73,657
Licenses and Permits	813	-	-	813
State Grants	39,806	38,976	11,852	90,634
Charges for Services	8,117	-	-	8,117
Fines and Forfeitures	51	-	-	51
Interest and Rentals	6,561	320	217	7,098
Other Revenue	<u>30,429</u>	<u>-</u>	<u>80</u>	<u>30,509</u>
Total Revenues	<u>159,434</u>	<u>39,296</u>	<u>12,149</u>	<u>210,879</u>
Expenditures				
Current				
Legislative	4,246	-	-	4,246
General Government	52,195	-	-	52,195
Public Safety	38,696	-	-	38,696
Public Works	8,209	27,836	13,798	49,843
Recreation and Cultural	9,651	-	-	9,651
Other	9,707	-	-	9,707
Debt Service	14,520	-	-	14,520
Capital Outlay	<u>23,389</u>	<u>-</u>	<u>-</u>	<u>23,389</u>
Total Expenditures	<u>160,613</u>	<u>27,836</u>	<u>13,798</u>	<u>202,247</u>
Excess of Revenues Over (Under)				
Expenditures	<u>(1,179)</u>	<u>11,460</u>	<u>(1,649)</u>	<u>8,632</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	<u>525</u>	<u>-</u>	<u>-</u>	<u>525</u>
Total Other Financing Sources (Uses)	<u>525</u>	<u>-</u>	<u>-</u>	<u>525</u>
Excess of Revenues and Other Sources				
Over (Under) Expenditures				
and Other Uses	<u>(654)</u>	<u>11,460</u>	<u>(1,649)</u>	<u>9,157</u>
Fund Balance-March 1, 2005	<u>61,694</u>	<u>37,517</u>	<u>24,437</u>	<u>123,648</u>
Fund Balance-February 28, 2006	<u>\$ 61,040</u>	<u>\$ 48,977</u>	<u>\$ 22,788</u>	<u>\$ 132,805</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF FREEPORT
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
For the Year Ended February 28, 2006

Net Change in Fund Balances - Total Governmental Funds		\$ 9,157
Revenues in the Statement of Activities that does not provide current financial resources are not reported as revenues in the funds		(5,568)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces debt)		12,996
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives		
Expenditures for capital assets	23,389	
Less: Current year depreciation	14,452	
Less: Proceeds from Disposal of Capital Assets	525	
Less: Loss from Disposal of Capital Assets	<u>1,375</u>	<u>7,037</u>
Change in Net Assets of Governmental Funds Activities		<u>\$ 23,622</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF FREEPORT
PROPRIETARY FUNDS STATEMENT OF NET ASSETS
February 28, 2006

	Enterprise Fund Water System	Total
ASSETS		
Cash and Cash Equivalents	\$ 51,262	\$ 51,262
Receivables (Net)		
Accounts	360	360
Other	16,056	16,056
Due from Other Funds	5,281	5,281
Restricted Assets	14,042	14,042
Capital Assets (Net of Accumulated Depreciation)	1,163,033	1,163,033
Total Assets	\$ 1,250,034	\$ 1,250,034
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts Payable	\$ 2,204	\$ 2,204
Accrued Liabilities	11,280	11,280
Due to Other Funds	396	396
Bonds Payable	770,000	770,000
Total Liabilities	783,880	783,880
Net Assets		
Net Assets		
Investment in Capital Assets, Net of Related Debt	393,033	393,033
Restricted for Debt Service	13,289	13,289
Restricted for Capital Projects	753	753
Unrestricted	59,079	59,079
Total Net Assets	466,154	466,154
Total Liabilities and Net Assets	\$ 1,250,034	\$ 1,250,034

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF FREEPORT
PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended February 28, 2006

	Enterprise Fund Water System	Total
Operating Revenues		
Charges for Services	\$ 104,568	\$ 104,568
Other Operating Revenue	1,554	1,554
Total Operating Revenues	106,122	106,122
Operating Expenses		
Administration	972	972
Salaries and Fringe Benefits	21,176	21,176
Supplies	8,893	8,893
Contractual Services	360	360
Maintenance and Repairs	7,562	7,562
Miscellaneous	430	430
Depreciation	14,332	14,332
Bank Fees	225	225
Transportation	98	98
Printing and Publishing	2,319	2,319
Telephone	646	646
Utilities	2,682	2,682
Equipment Rental	2,863	2,863
Memberships and Dues	1,313	1,313
Insurance and Bonds	3,806	3,806
Water Testing	2,524	2,524
Total Operating Expenses	70,201	70,201
Operating Income	35,921	35,921
Nonoperating Revenues (Expenses)		
Interest Earned on Investments	788	788
Interest Expense	(15,616)	(15,616)
Total Nonoperating Revenues (Expenses)	(14,828)	(14,828)
Change in Net Assets	21,093	21,093
Net Assets-March 1, 2005	445,061	445,061
Net Assets-February 28, 2006	\$ 466,154	\$ 466,154

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF FREEPORT
PROPRIETARY FUNDS STATEMENT OF CASH FLOWS
For the Year Ended February 28, 2006

	Enterprise Fund Water System	Total
Cash Flows From Operating Activities:		
Cash Charges for Services	\$ 100,924	\$ 100,924
Other Operating Revenue	1,554	1,554
Administrative Costs	(972)	(972)
Cash Payments to Employees for Services	(21,176)	(21,176)
Cash Payments to Suppliers for Goods and Services	(32,987)	(32,987)
Net Cash Provided by Operating Activities	47,343	47,343
Cash Flows From Capital and Related Financing Activities:		
Bond Proceeds	770,000	770,000
Payment of Principal	(110,000)	(110,000)
Payment of Interest	(4,336)	(4,336)
Net Cash Used by Capital and Related Financing Activities	655,664	655,664
Cash Flows From Investing Activities:		
Interest Earned on Cash Equivalents and Investments	788	788
Purchase of Fixed Assets	(728,551)	(728,551)
Net Cash Provided (Used) by Investing Activities	(727,763)	(727,763)
Net Increase in Cash and Cash Equivalents	(24,756)	(24,756)
Cash and Cash Equivalents at Beginning of the Year (Including \$57,499 in restricted accounts)	90,060	90,060
Cash and Cash Equivalents at End of the Year (Including \$14,042 in restricted accounts)	\$ 65,304	\$ 65,304
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 35,921	\$ 35,921
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	14,332	14,332
Decrease (Increase) in Accounts Receivable	(3,644)	(3,644)
Increase (Decrease) in Accounts Payable	734	734
Net Cash Provided by Operating Activities	\$ 47,343	\$ 47,343

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF FREEPORT
FIDUCIARY FUNDS STATEMENT OF NET ASSETS
February 28, 2006

ASSETS	Trust and Agency
Current Assets	
Cash and Cash Equivalents	\$ 7,643
Due From Other Funds	<u>410</u>
Total Assets	<u>\$ 8,053</u>
LIABILITIES	
Current Liabilities	
Due to Other Funds	\$ 3,868
Accrued Liabilities	<u>4,185</u>
Total Liabilities	<u>\$ 8,053</u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Freeport conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Freeport:

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Village's activities

The Village of Freeport has elected to not prepare a Management Discussion and Analysis section, but other changes are reflected in the accompanying financial statements (including notes to the financial statements).

REPORTING ENTITY

The Village of Freeport was organized in 1895. The Village operates under an elected council of six members and provides services to its residents in many areas including police protection, maintenance of Village Streets and other property, water and general Village administration. Education services are provided to citizens through several local school districts, which are separate governmental entities. Fire and ambulance service is provided by outside independently owned entities. The Village is assessed for its respective share of the expenditures.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual; therefore, they have been recognized as revenue in the current fiscal period. All other revenues are considered to be measurable only when cash is received by the Village.

Taxes Receivable - The Village property tax is levied on each July 1st based on the taxable valuation of property located in the Village as of the preceding December 31st.

It is the Village's policy to recognize revenue from the current tax levy in the year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 State taxable valuation of the Village totaled \$8,360,475 on which ad valorem taxes levied consisted of 7.8987 mills for Village operating purposes raising \$67,492. The amounts recognized in the General Fund financial statements as current property tax revenue represent 2005 taxes collected and 2004 delinquent taxes collected in the current fiscal year.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.
- The Major Street Fund accounts for the maintenance of all major streets and trunk lines. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.
- The Local Street Fund accounts for the maintenance of all local streets. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.

The Village reports the following major proprietary funds:

- The Water Fund accounts for the operation and maintenance of the water supply system, capital additions, and retirement of revenue bonds. Financing is provided by user charges and contributions by other funds and customers.

Additionally, the government reports the following fund types:

- The Trust and Agency Fund accounts for the assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Village has elected not to follow private-sector standards.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(Continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering products in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water fund also recognizes the portion of tap fees intended to recover current cost (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st based on the taxable valuation of property located in the Village as of the preceding December 31st. These taxes are due on August 31 with the final collection date of September 15. After that date, they are added to the county 's delinquent tax rolls.

The delinquent real property taxes of the Village are purchased by Barry County.

Restricted Assets - The Village has restricted assets for debt and capital assets. The Village Council cannot change the amounts restricted and cannot spend the restricted funds for any other purpose. The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest, a bond reserve and capital projects. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 for equipment and \$1,000 for improvements and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

<u>General Assets</u>	
Buildings	40 years
Land Improvements	20 years
Furniture	10 years
Equipment	7 years
Data Processing Equipment	5 years
Distribution System	30 to 50 years
 <u>Infrastructure Assets</u>	
Road	8 to 30 years
Bridges	12 to 50 years
Drains, Curbs, Gutters	8 to 40 years

Compensated Absences (Vacation and Sick Leave) - Vacation pay is earned by all employees with at least twenty regularly scheduled hours each week. The amount of vacation pay earned is determined according to the length of their employment and is available for use in the year following its accrual. Vacation time is paid at the employee's current pay rate and must be used in the year available. The Village has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year.

Sick leave benefits are earned by all employees except elected officials with at least one month of service. The amount of sick leave benefits earned is six days per calendar year. Sick time is paid at the employees current pay rate and must be used in the year available. Sick leave benefits will not be paid upon termination of employment. No provision has been made in the financial statements for unused sick leave.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Village does not have any reservations or designations of fund balance.

Retained Earnings Reserve - In the Water System fund, certain amounts of the retained earnings are reserved for bond and interest redemption and capital projects. The amounts of the reserves are established by bond ordinances. Any use of the reserve balances would be a violation of the bond ordinances.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The Village Boards prepares the annual budgets prior to February 28. A Public Hearing is conducted to obtain taxpayers' comments. The budget documents present information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended February 28, 2006, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<u>FUND</u>	<u>BUDGET APPROPRIATION</u>	<u>ACTUAL EXPENDITURE</u>	<u>BUDGET VARIANCE</u>
General			
General Government:			
Village Clerk	\$ 5,700	\$ 6,933	\$ 1,233
Building and Grounds	\$ 21,000	\$ 23,494	\$ 2,494
Community Center	\$ 13,000	\$ 15,799	\$ 2,799
Cemetery	\$ 7,100	\$ 7,397	\$ 297
Public Safety:			
Police	\$ 24,000	\$ 31,587	\$ 7,587
Public Works:			
Street Lighting	\$ 7,700	\$ 8,209	\$ 509
Debt Service:			
Principal	\$ -	\$ 12,996	\$ 12,996
Interest	\$ -	\$ 1,524	\$ 1,524

ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village of Freeport.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village has designated two banks for the deposit of the Village of Freeport funds.

The Village's deposits and investments are in accordance with statutory authority.

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>FIDUCIARY FUNDS</u>	<u>TOTAL PRIMARY GOVERNMENT</u>
Cash and Cash Equivalents	\$ 101,500	\$ 51,262	\$ 7,643	\$ 160,405
Investments	7,672	-	-	7,672
Restricted Assets	<u>-</u>	<u>14,042</u>	<u>-</u>	<u>14,042</u>
Total	<u>\$ 109,172</u>	<u>\$ 65,304</u>	<u>\$ 7,643</u>	<u>\$ 182,119</u>

The breakdown between deposits and investments is as follows:

	<u>PRIMARY GOVERNMENT</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 182,119
Investment in Securities (Mutual Funds and Similar Vehicles)	-
Petty Cash and Cash on Hand	<u>-</u>
Total	<u>\$ 182,119</u>

At February 28, 2006, the Village had deposits with a carrying amount of \$182,119 and a bank balance of \$176,085. Of the bank balance, \$174,611 is covered by federal depository insurance, \$1,474 is uninsured and \$0 is collateralized.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ADJUST- MENTS</u>	<u>ENDING BALANCE</u>
Governmental Activities					
Capital Assets not Being Depreciated					
Land	\$ -	\$ -	\$ -	\$ 14,500	\$ 14,500
Subtotal	-	-	-	14,500	14,500
Capital Assets Being Depreciated					
Buildings	76,745	1,200	-	(12,417)	65,528
Land Improvements	-	12,189	-	10,380	22,569
Equipment	164,532	10,000	19,000	(52,554)	102,978
Data Processing Equipment	-	-	-	1,495	1,495
Subtotal	241,277	23,389	19,000	(53,096)	192,570
Less Accumulated Depreciation for					
Buildings	21,849	1,278	-	-	23,127
Land Improvements	3,708	653	-	-	4,361
Equipment	53,594	12,237	17,100	-	48,731
Data Processing Equipment	1,089	284	-	-	1,373
Subtotal	80,240	14,452	17,100	-	77,592
Net Capital Assets Being Depreciated	161,037	8,937	1,900	(53,096)	114,978
Governmental Activities Total					
Capital Assets-Net of Depreciation	\$ 161,037	\$ 8,937	\$ 1,900	\$ (38,596)	\$ 129,478

The adjustments above reflect corrections made during the current year to adjust the carrying balances to the Village's actual physical asset listing and eliminate all assets under the Village's cost threshold of \$500 for equipment and \$1,000 for improvements.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

CAPITAL ASSETS (Continued)

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Business-Type Activities				
Capital Assets not Being Depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Progress	<u>492,998</u>	<u>-</u>	<u>492,998</u>	<u>-</u>
Subtotal	<u>492,998</u>	<u>-</u>	<u>492,998</u>	<u>-</u>
Capital Assets Being Depreciated				
Equipment	-	1,095	-	1,095
Water System	<u>174,406</u>	<u>1,109,115</u>	<u>-</u>	<u>1,283,521</u>
Infrastructure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>174,406</u>	<u>1,110,210</u>	<u>-</u>	<u>1,284,616</u>
Less Accumulated Depreciation for				
Equipment	-	104	-	104
Water System	<u>107,251</u>	<u>14,228</u>	<u>-</u>	<u>121,479</u>
Subtotal	<u>107,251</u>	<u>14,332</u>	<u>-</u>	<u>121,583</u>
Net Capital Assets Being Depreciated	<u>67,155</u>	<u>1,095,878</u>	<u>-</u>	<u>1,163,033</u>
Business-Type Activities Total Capital Assets-Net of Depreciation	<u>\$ 560,153</u>	<u>\$ 1,095,878</u>	<u>\$ 492,998</u>	<u>\$ 1,163,033</u>

Depreciation expense was charged to programs of the Village as follows:

Governmental Activities	
General Government	\$ 2,593
Public Safety	386
Public Works	10,536
Recreation and Cultural	<u>937</u>
Total Government Activities	<u>\$ 14,452</u>
Business-Type Activities	
Water	<u>\$ 14,332</u>
Total Business-Type Activities	<u>\$ 14,332</u>

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances is as follows:

<u>FUND</u>	<u>RECEIVABLES</u>	<u>FUND</u>	<u>PAYABLES</u>
General	\$ 3,457	General	\$ 13,033
Major Street	7,951	Major Street	435
Local Streets	646	Local Streets	13
Water System	5,281	Water System	396
Payroll	410	Payroll	3,868
	<u>\$ 17,745</u>		<u>\$ 17,745</u>

LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

The following is a summary of the debt outstanding of the Village of Freeport as of February 28, 2006:

	<u>INTEREST RATE</u>	<u>PRINCIPAL MATURES</u>	<u>BEGINNING BALANCE</u>	<u>ADDITION (REDUCTIONS)</u>	<u>ENDING BALANCE</u>	<u>DUE WITHIN ONE YEAR</u>
Primary Government						
Governmental Activities						
Other Liabilities						
Bachoe	4.750%	2008	\$ 35,327	\$ (12,996)	\$ 22,331	\$ 12,604
Business-Type Activities						
Revenue Bonds						
Notes Payable	2.14% to 5.00%	2006	110,000	(110,000)	-	-
Water System-2005	4.125%	2046	-	710,000	710,000	8,000
Water System-2005	4.125%	2036	-	60,000	60,000	1,000
Total Business-Type Activities			<u>\$ 145,327</u>	<u>\$ 647,004</u>	<u>\$ 792,331</u>	<u>\$ 21,604</u>

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

LONG-TERM DEBT (Continued)

The annual requirements to pay principal and interest on long-term bonds outstanding for the primary government are as follows:

<u>Year End February 28</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 12,604	\$ 795	\$ 9,000	\$ 29,735
2008	9,727	196	9,000	31,041
2009	-	-	10,000	30,628
2010	-	-	10,000	30,216
2011	-	-	11,000	29,762
2012-2016	-	-	61,000	141,468
2017-2021	-	-	76,000	127,133
2022-2026	-	-	92,000	109,561
2027-2031	-	-	115,000	87,965
2032-2036	-	-	140,000	61,215
2037-2041	-	-	170,000	28,421
2042-2046	-	-	67,000	1,196
Total	<u>\$ 22,331</u>	<u>\$ 991</u>	<u>\$ 770,000</u>	<u>\$ 708,341</u>

RISK MANAGEMENT

The Village is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village manages its risk exposure and provides certain employee benefits through a combination of risk management pools and commercial insurance.

The Village participates in the Michigan Municipal League for general and automobile liability, motor vehicle physical damage, property damage, and workers compensation coverages. The Michigan Municipal Liability and Property Pool were established pursuant to laws of the State of Michigan which authorizes local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the pool is to jointly exercise powers common to each participating member to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operation of its members; and to defend and protect any member of the authority against liability or loss.

The Michigan Municipal Liability and Property Pool, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to a total transfer of risk to reinsurance companies backing the Michigan Municipal Liability and Property Pool. Due to this reinsurance purchase, there is no pooling of risk between members.

The Michigan Municipal Liability and Property Pool chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount.

The individual members are responsible for their self-retention amounts (deductibles) that vary from member to member.

The Village also provides employee benefits through the Michigan Municipal League with programs underwritten by commercial insurance carriers.

**VILLAGE OF FREEPORT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

RISK MANAGEMENT (Continued)

At February 28, 2006, there were no claims, which exceeded insurance coverage. The Village had no significant reduction in insurance coverage from previous years.

VILLAGE OF FREEPORT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended February 28, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 61,694	\$ 61,694	\$ 61,694	\$ -
Resources (Inflows)				
Taxes and Penalties	71,650	72,946	73,657	711
Licenses and Permits	865	865	813	(52)
State Grants	38,000	38,000	39,806	1,806
Charges for Services	2,200	4,860	8,117	3,257
Fines and Forfeitures	20	20	51	31
Interest and Rentals	7,500	8,240	6,561	(1,679)
Other Revenue	<u>19,000</u>	<u>25,313</u>	<u>30,429</u>	<u>5,116</u>
Total Resources	<u>139,235</u>	<u>150,244</u>	<u>159,434</u>	<u>9,190</u>
Charges to Appropriations (Outflows)				
Legislative	4,400	4,400	4,246	154
General Government				
President	1,082	1,082	1,030	52
Accounting Department	4,000	2,000	1,047	953
Attorney	1,500	1,500	1,500	-
Clerk	5,700	5,700	6,933	(1,233)
Treasurer	5,000	5,000	4,995	5
Buildings and Grounds	11,000	11,000	13,494	(2,494)
Community Center	13,000	13,000	15,799	(2,799)
Cemetery	7,100	7,100	7,397	(297)
Public Safety				
Police	24,000	24,000	31,587	(7,587)
Fire	5,500	5,500	5,500	-
Planning and Zoning	1,000	2,000	1,609	391
Public Works				
Street Lighting	7,700	7,700	8,209	(509)
Streets and Highways	6,000	6,000	-	6,000
Recreational and Cultural				
Parks	9,000	19,000	9,651	9,349
Other				
Insurance, Bonds and Fringes	19,250	19,250	9,707	9,543
Debt Service	-	-	14,520	(14,520)
Capital Outlay	<u>14,000</u>	<u>24,000</u>	<u>23,389</u>	<u>611</u>
Total Charges to Appropriations	<u>139,232</u>	<u>158,232</u>	<u>160,613</u>	<u>(2,381)</u>

VILLAGE OF FREEPORT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Continued)
For the Year Ended February 28, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Excess of Resources Over (Under) Appropriations	<u>3</u>	<u>(7,988)</u>	<u>(1,179)</u>	<u>6,809</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	<u>-</u>	<u>-</u>	<u>525</u>	<u>525</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>525</u>	<u>525</u>
Excess of Resources and Other Sources Over (Under) Appropriations and Other Uses	<u>3</u>	<u>(7,988)</u>	<u>(654)</u>	<u>7,334</u>
Budgetary Fund Balance - February 28, 2006	<u>\$ 61,697</u>	<u>\$ 53,706</u>	<u>\$ 61,040</u>	<u>\$ 7,334</u>

VILLAGE OF FREEPORT
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND
For the Year Ended February 28, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 37,517	\$ 37,517	\$ 37,517	\$ -
Resources (Inflows)				
State Grants			38,976	38,976
Interest and Rentals			<u>320</u>	<u>320</u>
Total Resources	<u>-</u>	<u>-</u>	<u>39,296</u>	<u>39,296</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration			748	(748)
Street Routine Maintenance			23,444	(23,444)
Street Winter Maintenance			2,997	(2,997)
Traffic Services			196	(196)
Insurance and Bonds			<u>451</u>	<u>(451)</u>
Total Charges to Appropriations	<u>40,000</u>	<u>40,000</u>	<u>27,836</u>	<u>12,164</u>
Excess of Resources Over (Under) Appropriations	<u>(40,000)</u>	<u>(40,000)</u>	<u>11,460</u>	<u>51,460</u>
Budgetary Fund Balance - February 28, 2006	<u>\$ (2,483)</u>	<u>\$ (2,483)</u>	<u>\$ 48,977</u>	<u>\$ 51,460</u>

VILLAGE OF FREEPORT
BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND
For the Year Ended February 28, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 24,437	\$ 24,437	\$ 24,437	\$ -
Resources (Inflows)				
State Grants			11,852	11,852
Interest and Rentals			217	217
Other Revenue			<u>80</u>	<u>80</u>
Total Resources	<u>-</u>	<u>-</u>	<u>12,149</u>	<u>12,149</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration			224	(224)
Street Routine Maintenance			12,059	(12,059)
Street Winter Maintenance			1,245	(1,245)
Traffic Services			135	(135)
Insurance and Bonds			<u>135</u>	<u>(135)</u>
Total Charges to Appropriations	<u>20,000</u>	<u>20,000</u>	<u>13,798</u>	<u>6,202</u>
Excess of Resources Over (Under) Appropriations	<u>(20,000)</u>	<u>(20,000)</u>	<u>(1,649)</u>	<u>18,351</u>
Budgetary Fund Balance - February 28, 2006	<u>\$ 4,437</u>	<u>\$ 4,437</u>	<u>\$ 22,788</u>	<u>\$ 18,351</u>

VILLAGE OF FREEPORT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended February 28, 2006

<u>REVENUES</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Taxes and Penalties			
Property Taxes		\$ 72,961	
Collection Fees		696	
Total Taxes and Penalties	\$ 72,946	<u>73,657</u>	\$ 711
Licenses and Permits			
Building Permits		200	
Liquor License Refund		613	
Total Licenses and Permits	865	<u>813</u>	(52)
State Grants			
State Revenue Sharing:			
Sales Tax		39,806	
Total State Grants	38,000	<u>39,806</u>	1,806
Charges for Services			
Cemetary Foundations		352	
Cemetary Grave Openings		3,300	
Sale of Cemetary Lots		4,465	
Total Charges for Services	4,860	<u>8,117</u>	3,257
Fines and Forfeitures	20	<u>51</u>	31
Interest and Rentals			
Interest		731	
Rentals		5,830	
Total Interest and Rentals	8,240	<u>6,561</u>	(1,679)
Other Revenue			
Miscellaneous		2,604	
Refunds and Rebates		2,195	
Equipment Rental		11,330	
Donations		14,300	
Total Other Revenue	<u>25,313</u>	<u>30,429</u>	<u>5,116</u>
Total Revenues	<u>150,244</u>	<u>159,434</u>	<u>9,190</u>

VILLAGE OF FREEPORT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended February 28, 2006

<u>EXPENDITURES</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Legislative:			
Salaries - Village Council		3,575	
Payroll Taxes		402	
Supplies		4	
Memberships and Dues		139	
Printing and Publishing		<u>126</u>	
Total Legislative	<u>4,400</u>	<u>4,246</u>	<u>154</u>
General Government:			
Village President:			
Salary		900	
Payroll Taxes		<u>130</u>	
Total Village President	1,082	<u>1,030</u>	52
Accounting Department:			
Contractual Services		<u>1,047</u>	
Total Accounting Department	2,000	<u>1,047</u>	953
Attorney	1,500	<u>1,500</u>	-
Village Clerk:			
Salary		4,140	
Payroll Taxes		317	
Supplies		17	
Office Supplies and Postage		1,474	
Memberships and Dues		404	
Telephone		<u>581</u>	
Total Village Clerk	5,700	<u>6,933</u>	(1,233)
Treasurer:			
Salary		4,000	
Payroll Taxes		306	
Office Supplies and Postage		360	
Memberships and Dues		315	
Miscellaneous		<u>14</u>	
Total Treasurer	5,000	<u>4,995</u>	5

VILLAGE OF FREEPORT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended February 28, 2006

<u>EXPENDITURES (Continued)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
General Government (Continued):			
Buildings and Grounds:			
Wages		6,770	
Payroll Taxes		627	
Supplies		67	
Maintenance and Repairs		890	
Printing and Publishing		51	
Utilities		4,434	
Miscellaneous		655	
Capital Outlay		<u>10,000</u>	
Total Buildings and Grounds	21,000	<u>23,494</u>	(2,494)
Community Center:			
Salaries		3,067	
Payroll Taxes		383	
Supplies		1,104	
Maintenance and Repairs		1,690	
Utilities		8,955	
Miscellaneous		<u>600</u>	
Total Community Center	13,000	<u>15,799</u>	(2,799)
Cemetery:			
Salary		5,286	
Payroll Taxes		617	
Supplies		856	
Gas and Oil		424	
Maintenance and Repairs		<u>214</u>	
Total Cemetery	<u>7,100</u>	<u>7,397</u>	<u>(297)</u>
Total General Government	<u>56,382</u>	<u>62,195</u>	<u>(5,813)</u>
Public Safety:			
Police:			
Salaries and Wages		21,933	
Payroll Taxes		2,580	
Fringes		3,660	
Supplies		200	
Telephone		850	
Gas and Oil		631	
Maintenance and Repairs		762	
Printing and Publishing		53	
Memberships and Dues		600	
Miscellaneous		<u>318</u>	
Total Police	24,000	<u>31,587</u>	(7,587)

VILLAGE OF FREEPORT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended February 28, 2006

<u>EXPENDITURES (Continued)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Public Safety (Continued):			
Fire:			
Hydrant Rental		5,500	
Total Fire	5,500	5,500	-
Planning and Zoning:			
Planning Board Wages		600	
Payroll Taxes		86	
Transportation and Mileage		125	
Supplies		10	
Printing and Publishing		163	
Memberships and Dues		625	
Total Planning and Zoning	2,000	1,609	391
Total Public Safety	31,500	38,696	(7,196)
Public Works:			
Street Lighting:			
Utilities		8,209	
Total Street Lighting	7,700	8,209	(509)
Streets and Highways:			
Contractual Services		-	
Total Streets and Highways	6,000	-	6,000
Total Public Works	13,700	8,209	5,491
Recreation and Cultural:			
Parks:			
Wages		5,143	
Payroll Taxes		561	
Supplies		573	
Utilities		936	
Maintenance and Repairs		2,007	
Gas and Oil		431	
Capital Outlay		13,389	
Total Parks	33,000	23,040	9,960
Total Recreation and Cultural	33,000	23,040	9,960

VILLAGE OF FREEPORT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Continued)
For the Year Ended February 28, 2006

<u>EXPENDITURES (Continued)</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Other:			
Insurance, Bonds and Fringes:			
Multi-Peril Insurance		9,707	
Total Insurance, Bonds and Fringes	19,250	9,707	9,543
Total Other	19,250	9,707	9,543
Debt Service:			
Prinicpal		12,996	
Interest		1,524	
Total Debt Service	-	14,520	(14,520)
Total Expenditures	158,232	160,613	(2,381)
Excess of Revenues Over Expenditures	(7,988)	(1,179)	6,809
Other Financing Sources (Uses):			
Sale of Fixed Assets	-	525	525
Total Other Financing Sources (Uses)	-	525	525
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(7,988)	(654)	7,334
Fund Balance-March 1, 2005	61,694	61,694	-
Fund Balance-February 28, 2006	<u>\$ 53,706</u>	<u>\$ 61,040</u>	<u>\$ 7,334</u>

VILLAGE OF FREEPORT
COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS
February 28, 2006

ASSETS	Major Streets	Local Streets	Total
Cash and Cash Equivalents	\$ 34,429	\$ 20,016	\$ 54,445
Due From State	7,032	2,139	9,171
Due From Other Funds	7,951	646	8,597
Total Assets	\$ 49,412	\$ 22,801	\$ 72,213
 <u>LIABILITIES AND FUND EQUITY</u>			
Liabilities			
Due To Other Funds	\$ 435	\$ 13	\$ 448
Total Liabilities	435	13	448
Fund Equity			
Fund Balance			
Unreserved - Undesignated	48,977	22,788	71,765
Total Fund Equity	48,977	22,788	71,765
Total Liabilities and Fund Equity	\$ 49,412	\$ 22,801	\$ 72,213

VILLAGE OF FREEPORT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS
For the Year Ended February 28, 2006

	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total</u>
Revenues			
State Grants	\$ 38,976	\$ 11,852	\$ 50,828
Interest and Rentals	320	217	537
Other Revenue	-	80	80
Total Revenues	<u>39,296</u>	<u>12,149</u>	<u>51,445</u>
Expenditures			
Current			
Public Works			
Street Administration	748	224	972
Street Routine Maintenance	23,444	12,059	35,503
Street Winter Maintenance	2,997	1,245	4,242
Traffic Services	196	135	331
Insurance and Bonds	451	135	586
Total Expenditures	<u>27,836</u>	<u>13,798</u>	<u>41,634</u>
Excess of Revenues Over (Under) Expenditures	11,460	(1,649)	9,811
Fund Balance-March 1, 2005	<u>37,517</u>	<u>24,437</u>	<u>61,954</u>
Fund Balance-February 28, 2006	<u>\$ 48,977</u>	<u>\$ 22,788</u>	<u>\$ 71,765</u>



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Village Council
Village of Freeport
Barry County, Michigan

We have audited the financial statements of the Village of Freeport as of and for the year ended February 28, 2006, and have issued our report thereon dated May 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Freeport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Freeport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Village Council and management. However, this report is a matter of public record and its distribution is not limited.

Hastings, MI
May 26, 2006

Walker, Fluke & Sheldon, PLLC

**VILLAGE OF FREEPORT
SINGLE AUDIT
For the year ended February 28, 2006**

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**UNQUALIFIED OPINION ON THE FINANCIAL STATEMENT OF A
FEDERAL PROGRAM IN ACCORDANCE WITH THE PROGRAM-SPECIFIC
AUDIT OPINION UNDER OMB CIRCULAR A-133**

To the Village Council
Village of Freeport
Barry County, Michigan

We have audited the accompanying schedule of expenditures of federal awards of the Village of Freeport for the year ended February 28, 2006. This financial statement is the responsibility of Village of Freeport's management. Our responsibility is to express an opinion on the financial statement of the program based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards under the USDA's Water and Waste Systems for Rural Communities in conformity with accounting principles generally accepted in the United States of America.

Hastings, MI
May 26, 2006

Walker, Fluke & Sheldon, PLLC

VILLAGE OF FREEPORT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended February 28, 2006

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program Award Amount	Prior Years Expenditures	Current Year Expenditures
USDA-Rural Utilities Services Water and Waste Disposal Systems for Rural Communities	10.760	N/A	\$ 770,000	\$ 95,494	\$ 673,853
Total Federal Assistance			\$ 770,000	\$ 95,494	\$ 673,853



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Village Council
Village of Freeport
Barry County, Michigan

We have audited the compliance of Village of Freeport with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to USDA's Water and Waste Systems for Rural Communities for the year ended February 28, 2006. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Village of Freeport's management. Our responsibility is to express an opinion on Village of Freeport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on USDA's Water and Waste Systems for Rural Communities occurred. An audit includes examining, on a test basis, evidence about Village of Freeport's compliance with those requirements and performing such procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Village of Freeport's compliance with those requirements.

In our opinion, Village of Freeport complied, in all material respects, with the requirements referred to above that are applicable to the USDA's Water and Waste Systems for Rural Communities for the year ending February 28, 2006.

Internal Control Over Compliance

The management of Village of Freeport is responsible for establishing and maintaining effective internal controls over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing the audit, we considered Village of Freeport's internal control over compliance with requirements that could have a direct and material effect on its USDA's Water and Waste Systems for Rural Communities in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Village of Freeport's management, and the Federal awarding agency and is not intended to be used by anyone other than these specified parties.

Hastings, MI
May 26, 2006

Walker, Fluke & Sheldon, PLC